

§ 367.17

on long-term debt (§367.2250), the discount must be recorded in account 226, Unamortized discount on long-term debt—Debit (§367.2260), and the expense of issuance must be recorded in account 181, Unamortized debt expense (§367.1810). The premium, discount and expense must be amortized over the life of the respective issues under a plan that will distribute the amounts equitably over the life of the securities. The amortization must be on a monthly basis, and the amounts relating to discounts and expenses must be charged to account 428, Amortization of debt discount and expense (§367.4280). The amounts relating to premiums must be credited to account 429, Amortization of premium on debt—Credit (§367.4290).

(b) When long-term debt is reacquired the difference between the amount paid upon reacquisition of any long-term debt and the face value, adjusted for unamortized discount, expenses or premium, as the case may be, applicable to the debt redeemed must be recognized currently in income and recorded in account 421, Miscellaneous income or loss (§367.4210), or account 426.5, Other deductions (§367.4265).

§ 367.17 Comprehensive inter-period income tax allocation.

(a) Where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income, the income tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method. In general, comprehensive inter-period tax allocation should be followed whenever transactions enter into the determination of pretax accounting income for the period even though some transactions may affect the determination of taxes payable in a different period, as further qualified in this section.

(b) Once comprehensive inter-period tax allocation has been initiated, either in whole or in part, it must be practiced on a consistent basis and

18 CFR Ch. I (4–1–08 Edition)

must not be changed or discontinued without prior Commission approval.

(c) Tax effects deferred currently will be recorded as deferred debits or deferred credits in accounts 190, Accumulated deferred income taxes (§367.1900), 282, Accumulated deferred income taxes—Other property (§367.2820), and 283, Accumulated deferred income taxes—Other (§367.2830), as appropriate. The resulting amounts recorded in these accounts must be disposed of as prescribed in this system of accounts or as otherwise authorized by the Commission.

§ 367.18 Criteria for classifying leases.

(a) If, at its inception, a lease meets one or more of the following criteria, the lease must be classified as a capital lease. Otherwise, it must be classified as an operating lease.

(1) The lease transfers ownership of the property to the lessee by the end of the lease term.

(2) The lease contains a bargain purchase option.

(3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion must not be used for purposes of classifying the lease.

(4) The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any related profit, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion must not be used for purposes of classifying the lease. The lessee must compute the present value of the minimum lease payments using its incremental borrowing rate, unless: